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**FISCAL IMPACT STATEMENT**

**LS 7119**

**BILL NUMBER:** SB 267

**NOTE PREPARED:** Jan 3, 2004

**BILL AMENDED:**

**SUBJECT:** Cap on property tax increases.

**FIRST AUTHOR:** Sen. Miller

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill limits budget, property tax levy, and property tax rate growth to the sum of 2% plus the rate of inflation. It also provides for Department of Local Government Finance (DLGF) review of the budgets, levies, and tax rates of all political subdivisions imposing an ad valorem property tax levy.

**Effective Date:** July 1, 2004.

**Explanation of State Expenditures:** Under current law, the DLGF must review local budgets, tax rates, and tax levies for a taxing unit if:

- 1) The county board of tax adjustment determines that the maximum tax rate is insufficient for the unit; or
- 2) The unit tax rate approved by the county board of tax adjustment exceeds the maximum allowable tax rate.

This bill would require the DLGF to review all local units' budgets, tax rates, and tax levies regardless of the status of the unit's tax rate to ensure that the increase in a unit's total tax levy does not exceed the amount allowed by this bill. In actuality, the DLGF already reviews each local unit's information and certifies each budget, tax levy, and tax rate. This provision would, therefore, not result in any additional expenses for the DLGF.

The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead

Credits are paid by the state in the amount of 20% of the net property tax due for operating levies attributable to owner-occupied residences. Depending on which funds' levies are reduced by a unit that would otherwise exceed the levy limit imposed by this bill, the state's expense for PTRC and Homestead Credits could be reduced.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any savings of PTRC and Homestead Credit would ultimately benefit the General Fund.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** In addition to the current maximum levy limitations and maximum tax rate limitations, beginning with taxes paid in 2005, this proposal would limit the increase in a taxing unit's total levy to the currently allowed percentage increase in the maximum levy plus 2%. The current percentage increase in the maximum levy is equal to the six-year average increase in Indiana nonfarm personal income. This factor amounted to 4.8% in CY 2003 and is 4.7% for 2004. The increase in a unit's total levy for all funds (including operating, cumulative, and debt service) would have been 6.7% if this bill had been in effect for 2004.

In CY 2001, 770 taxing units out of about 2,600\* increased their levies by more than 6.7%, exceeding that threshold by \$86.6 M. In CY 2002, 815 units exceeded 6.7% by 124.0 M. With CY 2003 information received from 2,147 units, 1,079 units exceeded the 6.7% level by \$205.8 M. Based on this information, it is estimated that potentially 1,250 units could exceed the 6.7% levy increase by about \$268 M when all of the county levies are certified.

(\*Unit counts include multiple counts for cross-county units)

The limit on total levy increases imposed by this bill would reduce the annual increase in property tax levies for some units. The limit could have a significant effect on the scope of future building projects for which a debt service levy is imposed. In addition, units that receive permission to exceed their maximum levies under statutory exceptions, including the appeal for fast growing taxing units, would still be limited by this provision.

Other revenues such as excise tax and local option income tax are distributed to units on the basis of property tax levies within a taxing district or within the county. Units that have levies which grow faster than other units in the county receive a growing proportionate share of these revenues. If this bill limits the levy growth of some units, the distribution of excise and local option income taxes could be affected.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** All local civil taxing units and school corporations.

**Information Sources:** Local Government Database.

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